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TAGS: [PGOV](#) [PREL](#) [PHUM](#) [ECON](#) [EINV](#) [EMIN](#) [SNAR](#) [BL](#)
SUBJECT: DEPSEC'S UPCOMING MEETING WITH BOLIVIAN VP

REF: A. LA PAZ 2357

[1](#)B. LA PAZ 2312

Classified By: A/DCM Mike Hammer, reasons 1.4 b and d.

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Summary
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[1](#)1. (C) Although the Morales government states it wants good relations with the United States, officials often use anti-U.S. rhetoric to distract from domestic problems, as when the Bolivian government recently groundlessly accused the United States of financing opposition groups. The key areas of concern in Bolivia currently are democracy, narcotics, and protection for U.S. investments. While Garcia Linera is generally seen as one of the more reasonable members of the Bolivian government, and often acts as moderator for radical elements of the ruling Movement Toward Socialism (MAS) party, he has been aggressive in questioning the role and purpose of U.S. aid and U.S. anti-narcotics policies. The VP will likely push for ATPDEA extension and seek Millennium Challenge Account funding. End summary.

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Politically-Motivated Anti-American Accusations
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[1](#)2. (C) It has become the norm for the Morales government to launch verbal attacks against "American imperialism" in times of domestic difficulties in order to deflect public attention. On multiple occasions, President Morales has also accused the U.S. government of attempted "terrorism", suggesting that an Amcit who bombed a Bolivian hostel in 2006 was acting on USG orders. President Morales cited this supposed act of terrorism as an excuse for proposing visa requirements for U.S. visitors, expected to enter into force in December. Concerned about a recent increase in vitriolic rhetoric, Ambassador Goldberg reviewed the U.S.- Bolivia bilateral relationship with Vice President Garcia Linera August 20 and noted recent pronouncements and actions on the part of the Bolivian government that strain bilateral ties. The Vice President promised to look into the issues of

concern and asked that the Ambassador not allow the forces that seek to distance Bolivia from the U.S. to prevail, emphasizing that the Bolivian government is committed to improving relations (ref b). However, not even a week later, Garcia Linera came out publicly accusing the U.S. government of funding opposition groups in Bolivia. We called on Vice Minister of Foreign Affairs Hugo Fernandez on August 28 to protest these baseless accusations. Despite our protest, the Bolivian government a day later (August 29) stepped up their anti-U.S. aid rhetoric.

13. (C) With no warning, Minister of the Presidency Quintana gave a lengthy presentation on state-run television accusing USAID of supporting the opposition and providing what he described as evidence in support of Morales's and Garcia Linera's previous accusations. Using USAID's democracy program as an example, Quintana claimed that only 30 percent of the funding could be accounted for and said that the other 70 percent is programmed unilaterally. Quintana listed grants and subcontracts which have been given to Bolivian organizations, highlighting organization managers who worked in previous governments as an example of the USG funding supporters of the "old way" and those against the MAS program of change. Quintana praised foreign aid from other countries, stating that other countries follow Bolivian laws. In a particularly ugly insinuation, Quintana called on USAID's Bolivian employees to "remain loyal" and "not be traitors." We would find it useful if the Deputy Secretary could repeat to Garcia Linera our concerns about the potential damage to the bilateral relationship if such baseless anti-U.S. attacks persist.

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Democracy in Danger
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14. (C) Strengthening and supporting democracy in Bolivia is our mission's primary concern. Although the ruling MAS party and President Evo Morales were elected with a clear majority in fair and open elections, their actions since assuming power have often displayed anti-democratic tendencies. President Morales is currently attempting to discredit and weaken the judicial branch of government. Specifically, the MAS-controlled lower house of Congress has sent an impeachment case against four of the five judges of the Constitutional Tribunal (the court which considers questions of constitutionality, separate from the Supreme Court, which is the court of final appeal.) The vote on the impeachment case was a striking example of how the MAS has begun to manipulate regulations in order to push the MAS agenda: after fighting broke out in the Congress, the MAS head of the lower house convened only the MAS congressmen in the offices of the Vice President, where they voted by "majority of those present" (that is, only the MAS) to impeach the four judges. The MAS's aggressive actions in the Constituent Assembly, which is currently attempting to draft Bolivia's new constitution, also provide an example of the MAS's growing disregard for the democratic process.

15. (C) During a recent visit by Venezuelan President Hugo Chavez, President Evo Morales went so far as to declare his intention to rule by decree if laws got in his way. In a number of areas, Evo seems to be following in Chavez's footsteps (for example, the recently-published draft constitution, written by the MAS and Evo's Spanish and Venezuelan advisors, would allow indefinite reelection for the President and Vice President.) Venezuelan funding is pouring into the country with no transparency or accountability, further damaging the democratic process. In fact, La Razon (Bolivia's paper-of-record), recently called into question Venezuelan assistance.

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Narcotics: Room for Further Cooperation?
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16. (C) Counter-narcotics programs represent a chance for the Bolivian and U.S. governments to work together, but again

Bolivian government rhetoric has made the task more difficult. President Evo Morales, who is the head of Bolivia's 'cocalero' coca-growing union, is a staunch supporter of coca leaf cultivation, and he publicly emphasizes a distinction between coca leaf and cocaine. In reality, the line between the two is far from clear: interdiction has increased under Evo's tenure, but so have coca production and cocaine exports. The Bolivian government's policies regarding coca are often incoherent, with one ministry challenging or annulling the actions of another ministry. Ambassador Goldberg was called to a meeting with Vice Foreign Minister Hugo Fernandez on August 22 to discuss his public comments voicing U.S. concerns over the rise of coca cultivation and drug trafficking. The Ambassador explained that his comments reflected concerns shared by Bolivian and U.S. drug enforcement authorities, supported by the latest United Nations figures. Evo's administration's reaction to the Ambassador's statements suggests that the comments struck a raw nerve. Evo is having difficulties making the case that coca cultivation is separate from cocaine production and does not want to be seen as tolerating an increase in drug trafficking.

¶7. (C) The Bolivian government, however, may be starting to realize that drugs represent a growing problem domestically and therefore may become more open to greater counternarcotics cooperation with the United States. Following a persistent effort by the Ambassador to push for a net reduction in coca cultivation, the Bolivian government announced August 28 that it is working on an "Action Plan" to implement the government's strategy to reduce coca cultivation to 20,000 hectares, down from the estimated 27,500 hectares currently being cultivated (according to UNODC's 2006 estimate). The government has plans to go even further and bring down coca cultivation to 16,000 hectares (by an unspecified date). While we reject the government's ongoing effort to bring "legal" cultivation to 20,000 hectares and would clearly want the government to produce a more substantial net reduction, 20,000 hectares would represent the average of what has been grown annually in Bolivia over the past decade, including during the past administrations. There may be an opportunity here for us to start a process which will achieve net reduction. The Vice President has discussed with the Ambassador the possibility of working out a bilateral agreement to achieve net coca reduction; it would be useful if the Deputy Secretary could refer to this idea and urge Garcia Linera to follow-up.

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U.S. Investments Threatened
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¶8. (C) The MAS's draft constitution made public on August 14 includes an article that specifies that international investors would only enjoy the benefits of Bolivian law and could not invoke external agreements or, by implication, international arbitration. A number of Evo's recent actions and statements have been seen as anti-investment by the industries affected: to give only a few examples, the forced renegotiation of petroleum contracts, the nationalization of Glencore's Vinto smelter, Evo's stated intention to create a state energy and electricity company, the Bolivian government's desire to repatriate a controlling share in Entel the Italian-owned telephone company, and Morales's claims that the Bolivian government now controls twenty percent of Bolivia's economy and should be involved in more.

¶9. (C) One U.S. investment which is vulnerable is San Cristobal mine, which is 65 percent owned by Apex Silver. San Cristobal would be particularly hard-hit by a bill currently in Congress, which would increase mining taxes. Although the Bolivian government claims to want a fifty-fifty split of profits, the proposed tax increases actually result in, on average, a 60 percent government take of profits. Because Apex hedged on metal prices in order to obtain financing, in aggregate proposed tax increases pose a serious threat to San Cristobal mine. When hedge costs are factored in to the overall cost structure, Apex estimates that the

proposed tax regime will yield the GOB a 93 percent effective tax rate. If refunds on import taxes are eliminated for mines that produce concentrate instead of metal, as has been proposed by the Ministry of Finance, the government's take would be more than 100 percent of San Cristobal's profits. In his August 20 meeting with Vice President Garcia Linera, the Ambassador noted that given the USD 900 million investment in San Cristobal mine, he hoped that the Vice President would grant Apex Silver the opportunity to present its concerns about the government's planned tax increase directly to him. Vice President Garcia Linera agreed to look into the matter and promised to hear out Apex Silver's concerns once he had a potential way forward.

Still Interested in ATPDEA and MCA

¶10. (C) Vice President Linera will likely push for extension of ATPDEA during your meeting. ATPDEA is crucial to a certain segment of the Bolivian economy, particularly specialty textile goods (note: USAID has provided support to a number of small companies which, without ATPDEA, would likely go bankrupt.) President Morales has made numerous statements that ATPDEA should not be extended by increments but should be formalized to give Bolivia permanent beneficial trade access to the United States. Morales has also stated that ATPDEA is not a U.S. "handout" but instead is Bolivia's due for its help in counternarcotics efforts.

¶11. (C) Vice President Garcia Linera is likely to push for extension of ATPDEA or mention a potential long-term bilateral "trade agreement" that Bolivian officials have yet to define. We also understand that Garcia Linera will visit with the Millennium Challenge Corporation to try to accelerate efforts to negotiate a compact.

Being Firm while Keeping the Relationship on Track

¶12. (C) Ambassador Goldberg has made clear our desire for good relations with Bolivia. In return, Vice President Garcia Linera has stressed that the Bolivian government also wants better relations with the United States and has pleaded with us not to "surrender to the forces that want to distance our countries" and to continue to work to try to find areas of cooperation but has done little to tone down his president's or even his own anti-U.S. rhetoric.

¶13. (C) Garcia Linera needs to hear our concerns about Bolivian democracy, the eroding investment climate, as well as our desire to continue and even expand counter-drug efforts. We also have to continue to urge the Morales government to temper its rhetoric if it is indeed interested in improved bilateral ties. That said, we are not optimistic that the United States will be able to improve its relationship with Bolivia in the short term, given Morales's paranoia and Chavez's continuing influence here.
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